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ARIZONA CORPORATION COMMISSION

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January 5, 2006

Chairman Hatch-Miller
Commissioner Spitzer
Commissioner Gleason
Commissioner Mayes
Parties to the Docket

Re: APS Rate Case; Docket No. E-01345A-05-0816

Dear Colleagues and Parties to the Docket:

We are all aware of the potential negative effects of Wall Street's downgrading the credit ratings of Pinnacle West and APS. While I have stated that Wall Street does not dictate the time it takes for the Commission to adequately review rate cases, I am not unsympathetic to the plight of APS and the company's need for a timely resolution of this matter.

Because I was unable to attend the procedural conference, I have not yet had the opportunity to articulate my position on expediting this rate case. I believe that it should be handled as quickly as possible, but without sacrificing thoroughness for speed. The Chairman has expressed concern that there may be "additional costs to the ratepayers" because of the financial situation of the utility. I share his concern, but I want to be sure that ratepayers do not get saddled with any unnecessary costs. A comprehensive analysis of the prudence of all APS' costs is necessary to ensure that this Commission arrives at a fair and equitable result – both for the company and for the ratepayers.

Article 15, section 3 of the Arizona Constitution requires the Commission to establish "just and reasonable rates and charges." In *Arizona Corporation Commission v. State ex rel. Woods*, 171 Ariz. 286, 296 (1992), the Arizona Supreme Court stated: "The Commission was not designed to protect public service corporations and their management but, rather, was established to protect our citizens from the results of speculation, mismanagement, and abuse of power." This interpretation of the role of the Commission was incorporated into our Decision approving the merger of Verizon and MCI. (Decision No. 68348, page 12, lines 10-12).

The courts have given ample guidance on the Commission's role in determining just and reasonable rates. In *Arizona Community Action Ass'n v. Arizona Corporation Commission*, 123 Ariz. 228, 231 (1979), the Arizona Supreme Court declared that "the interest of public-service corporation stock-holders must not be permitted to overshadow those of the public served." The Court further opined that, "The effect of the rate upon persons to whom services are rendered is as deep a concern in the fixing thereof as is the effect upon the stockholders or bondholders. A reasonable rate is one which is as fair as possible to all whose interests are involved." *Id.* (quoting *Salt River Valley Canal Co. v. Nelssen*, 10 Ariz. 9, 13 (1906)).

Before this Commission can approve any increase in rates, we must first determine that it is in the public interest to do so. It is certainly in the public interest for APS to be financially healthy, but the Commission also has a Constitutional duty to ratepayers, both residential and commercial, to ensure that those rates are reasonable. We should move as expeditiously as possible without compromising our scrutiny of all APS' costs.

Sincerely,

A handwritten signature in black ink, reading "William A. Mundell". The signature is fluid and cursive, with the first name "William" and last name "Mundell" clearly legible.

William A. Mundell, Commissioner
Arizona Corporation Commission

cc: Brian McNeil
Ernest Johnson
Lyn Farmer
Chris Kempley
Heather Murphy